

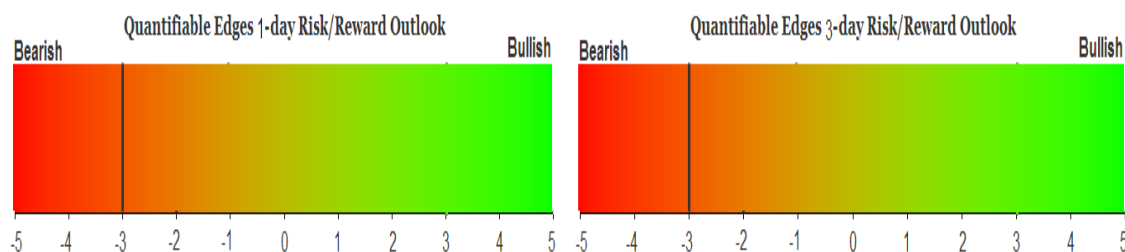
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 28, 2012

Volume 5 Issue 39

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing	NDX Trend Timer
Short	100% Short SPY	Flat	Long

Tonight's Research Points

- VIX and SPX both closed up for a 2nd day in a row, suggesting a bearish outlook for the SPX – especially with it currently trading at a 50-day high.

Short-term Outlook

The Bottom Line

I am still looking for a dip and aim to hold my small short position another day.

Summary of Recent Active Studies (see Letters from listed dates for details)

Study Date	Description	Time span	Bias	Avg Max Move
Active				
February 28, 2012	SPX & VIX up 2 in a row	1-3 days	Bearish	-1.35%
February 27, 2012	High close but lowest vol in 20 days	1-2 days	Bearish	-1.25%
February 24, 2012	SPY open < low 2 days ago. Close 50-hi	1-3 days	Bearish	-2.60%
February 22, 2012	SPY gap up close < open & > yest > 200	1-5 days	Bullish	2.10%
Active - Long Term				
February 6, 2012	Up Issues % > 75% 2 of 3. 10 high.	1-16 days	Bullish	4.70%
February 1, 2012	Golden Cross	int term	Bullish	
January 31, 2012	SPY 1st close < 10ma in over 25 days	1-20 days	Bullish	4.70%
January 17, 2012	Nasdaq leading SPX	int term	Bullish	
December 5, 2011	POMO activity flat to negative	int term	Bearish	
Dropped Tonight				
February 21, 2012	SPX gains 1%-2% op-ex week. SPX > 200	1-5 days	Bearish	

If the avg max move is achieved the study will appear in **bold italic blue** and no longer be active.

The Evidence

Another attempt at a selloff couldn't last more than 30 minutes as the market bounced back from morning weakness. The SPX and the Nasdaq gained 0.1% but the Russell 2000 lost 0.04%. Breadth was mixed as the NYSE Up Issues % came in at 49% and the Up Volume % was 54%. Total NYSE volume rose a bit from Friday's level..

Monday marked the 2nd day in a row where the SPX and VIX both closed up. And like Friday the VIX rose by more than 3%. In last night's letter I showed how the combination of an up close in the SPX and the VIX on a Friday during a long-term market uptrend showed bearish inclinations over the next 1-3 days.

Having the VIX rise over 2.5% on 2 days in a row while the SPX also rose is extremely unusual. Since 1998 I was only able to identify 4 other instances. While they were all lower 2 days later, just 4 instances aren't enough to draw any conclusions from. Simply requiring 2 consecutive up closes for SPX and VIX is enough to suggest a bearish edge. But when you throw in a 50-day high close as I did in the 2/10/12 subscriber letter the downside edge is even more compelling. Below I have updated the results for that study.

SPX and VIX both close higher today and yesterday. SPX closes at a 50-day high. Buy SPX on close. Sell X days later. \$100k/trade. 1998 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-2,173.23	14	9	5	64.29	1,059.62	3,434.08	-2,341.97	-4,149.36	0.45	0.81	-155.23
4	-6,705.40	14	6	8	42.86	960.80	1,907.36	-1,558.78	-4,240.48	0.62	0.46	-478.96
3	-8,273.98	14	4	10	28.57	840.37	1,433.12	-1,163.55	-4,423.40	0.72	0.29	-591.00
2	-5,129.87	14	5	9	35.71	584.78	1,078.48	-894.87	-2,752.74	0.65	0.36	-366.42
1	-2,374.93	17	6	11	35.29	265.05	415.16	-360.47	-924.70	0.74	0.40	-139.70

The only instance not to post a close below the entry price at some point in the next 3 days was 12/21/10.

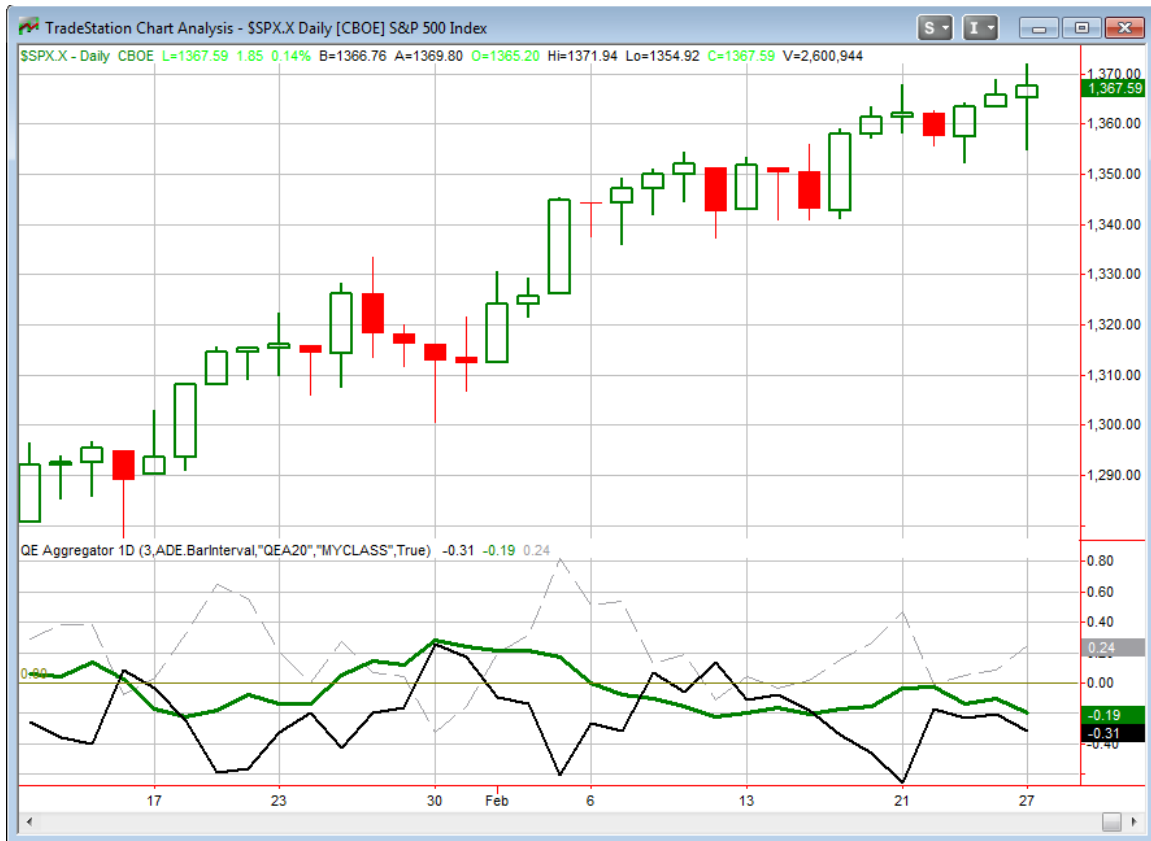
Stats remain squarely bearish. Below I have listed all 14 instances assuming a 3-day exit strategy.

SPX and VIX both close higher today and yesterday. SPX closes at a 50-day high.
Buy SPX on close. Sell 3 days later. \$100k/trade. 1998 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
12/30/99	Buy	\$1,464.47	(4.44%)	\$920.04
01/04/00	Sell	\$1,399.42		(\$4,558.72)
03/24/00	Buy	\$1,527.57	(1.25%)	\$458.90
03/29/00	Sell	\$1,508.52		(\$1,957.80)
05/28/03	Buy	\$953.22	1.45%	\$2,692.56
06/02/03	Sell	\$967.00		(\$726.96)
09/02/03	Buy	\$1,021.99	(0.06%)	\$712.95
09/05/03	Sell	\$1,021.39		(\$368.60)
12/30/03	Buy	\$1,109.64	1.13%	\$1,131.30
01/05/04	Sell	\$1,122.21		(\$410.40)
03/16/06	Buy	\$1,305.33	(0.62%)	\$421.80
03/21/06	Sell	\$1,297.23		(\$722.76)
09/18/06	Buy	\$1,321.18	(0.24%)	\$551.25
09/21/06	Sell	\$1,318.03		(\$675.75)
09/28/06	Buy	\$1,339.15	(0.38%)	\$54.02
10/03/06	Sell	\$1,334.11		(\$891.70)
04/18/07	Buy	\$1,472.50	0.57%	\$955.42
04/23/07	Sell	\$1,480.93		(\$538.01)
05/19/08	Buy	\$1,426.63	(2.26%)	\$0.00
05/22/08	Sell	\$1,394.35		(\$2,647.40)
04/23/10	Buy	\$1,217.28	(2.13%)	\$206.64
04/28/10	Sell	\$1,191.36		(\$2,924.12)
10/26/10	Buy	\$1,185.64	(0.20%)	\$326.76
10/29/10	Sell	\$1,183.26		(\$1,170.96)
12/21/10	Buy	\$1,254.60	0.23%	\$378.41
12/27/10	Sell	\$1,257.54		(\$246.48)
02/09/12	Buy	\$1,351.95	(0.11%)	\$102.20
02/14/12	Sell	\$1,350.50		(\$1,065.80)

The record appears impressive. Risk/reward favors the bears nicely as well with the average drawdown (-1.35%) over 2x the average run-up (0.6%). This study is a bit more powerful than last night's VIX study that just considered both the SPX and VIX closing up on a Friday. I have therefore replaced last night's study on the Active List with this one.

I have updated the [Aggregator](#) chart below.



VIX action again helped keep the green Aggregator line in negative territory. Readings below 0 mean net expectations from the Active List are for downside over the next few days. Meanwhile, the black Differential Line is also squarely below 0. A negative Differential reading means the SPX has outperformed expectations over the last few days. So net expectations are bearish and the SPX is overbought versus recent expectations. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below 0. This caused the Aggregator System to remain short at the close. This was indicated on the Systems page before the bell.

Based on the current evidence, expectations are scheduled to remain negative on Tuesday. Of course this could change if more bullish evidence emerges. Meanwhile, the Differential Pivot will be 1,360.84 on Tuesday. This is 0.5% below Monday's close. So it wouldn't take too big of a down day to flip the Differential Line, signaling the SPX has moved from short-term overbought to oversold versus expectations..

Again it appears we have a decent chance for a quick selloff. The rally over the past few weeks has come on poor breadth and poor volume, but has been very persistent. Despite repeated hints that a dip was likely the SPX has continued to plod higher. Narrow, plodding rallies that don't pull back are perhaps the most difficult to trade. Solid

risk/reward entry points for longs are not provided and shorts get slowly steamrolled. I still maintain a small short position and I intend to give it another day. As I have noted a few times lately the QE Buying Power Index will be turning strongly positive on Tuesday at the close, so if we don't get a pullback right away, our odds could get worse tomorrow. With this in mind I am not currently looking to add more to my short position.

Intermediate-term Outlook (2 weeks – 2 months)– updated 2/27 – bullish

The intermediate-term outlook was last updated in the 2/27/12 Letter. You may use the link below to access it.

[2012-02-27 QE Subscriber Letter.pdf](#)

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult Triggers

GILD– 1/3 position @ \$47.00 limit (\$46.50 fill)

GILD– 1/3 position @ \$44.69 limit (\$44.21 fill)

GILD –1/3 position @ \$44.53 limit (\$44.53 fill)

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 3/1(GILD-3)

Additional New Trade Ideas

A full listing of system triggers can be found at the [system triggers page](#) each night. I will cherry pick some of my favorite setups from the S&P 100 and ETF lists along with occasional other trade ideas to track below.

None tonight.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
GILD(1/3)	2/21/2012	\$46.50	\$45.19	-2.82%	\$43.74	Catapult
GILD(1/3)	2/22/2012	\$44.21	\$45.19	2.22%	\$43.74	Catapult
GILD(1/3)	2/23/2012	\$44.53	\$45.26	1.64%		<i>sold at limit</i>
SPY(1/4)(s)	2/24/2012	\$136.93	\$137.11	-0.13%		exit SPX close <=1,360.84

As I indicated in last night's letter I took a small part of GILD off the table and have placed a stop on the remaining. It will probably need to close up about \$0.60 - \$0.65 Tuesday to trigger an exit for Wednesday morning.

I will cover my SPY position if SPX closes <= the Differential Pivot of 1,360.84.

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